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Crucial Ethereum catalysts: Has the catch-up started?

Bitcoin has dominated the spotlight in recent months. The first spot-based ETF attracted over six billion US dollars in new assets and provided the price with significant tailwind. Ethereum, the second largest cryptocurrency by market capitalization, is the next candidate for a spot fund. Additionally, there are significant fundamental drivers.

In the summer of 2023, BlackRock, the world's largest asset manager, applied for a spot-based Bitcoin ETF. The financial world was surprised. Other established financial institutions such as Fidelity, Invesco and WisdomTree submitted their own applications. A few months later, the US Securities and Exchange Commission (SEC) suffered a decisive legal defeat against the crypto asset manager Grayscale. The point of contention: the unfair treatment of futures- and spot-based Bitcoin ETFs. A court argued that the categorical rejection of spot funds was arbitrary. The SEC conceded and approved trading with eleven different ETFs on January 10, 2024.

Unwavering crypto appetite on Wall Street

The launch of spot Bitcoin ETFs exceeded all expectations. On the first trading day alone, shares worth over \$4.6 billion changed hands. BlackRock's IBIT became the fastest-growing ETF in history. In the one and a half months since its launch, a staggering \$6.5 billion has flowed into the new products, averaging \$187 million per day.

The significant buying pressure is evident when looking at the Bitcoin price. Since the beginning of the year, the largest cryptocurrency by market capitalization has gained over +42%. This is despite a strong previous year with gains of +156% and the enormous anticipation for the ETFs.

The issuers collectively manage around \$15 trillion in traditional assets. Even a small allocation recommendation in the single-digit percentage



Figure 1: Bitcoin price (weekly) / Source: Tradingview

range, which no one has published yet, would open the gates for further inflows.

Ethereum: the next candidate

In retrospect, the approval of spot Bitcoin ETFs was hardly surprising. Since 2017, the Chicago Mercantile Exchange (CME) - the world's largest futures exchange - has offered Bitcoin futures contracts. These were allowed to serve as the basis for Bitcoin ETFs starting from the end of 2021. Only spot-based products were blocked by the SEC; without a legitimate basis, as decided by a U.S. court. The situation for Ethereum, the second-largest cryptocurrency by market capitalization, looks similar.

CME has allowed trading in Ethereum contracts since 2021, which led to a futures-based ETF in the fall of 2023. Due to historical complications with futures



ETFs, the products had a weak start. However, a spot product, similar to the Bitcoin ETFs, would be more attractive to investors. The SEC's discrimination against spot funds in the case of Ethereum suffers from the same logical errors as the previously rejected Bitcoin ETFs. It's unlikely that the agency would risk another embarrassment in court.

Additionally, BlackRock entered the race for an Ethereum ETF in November 2023. Given the success of its first product, the world's largest asset manager is unlikely to give up without a fight. An SEC decision could come as soon as May 23. With similar demand, the price implications would be significant. In terms of market capitalization and liquidity, Bitcoin leads Ethereum by a factor of three.

What even is Ethereum?

The concept of Bitcoin as "digital gold" resonates with many investors. However, Ethereum is far more than just a digital currency. As a "smart contract" platform, it hosts a variety of self-executing applications. These range from financial applications such as decentralized trading of cryptocurrencies or lending/borrowing, to collecting blockchain images (Non-Fungible Tokens, NFTs), to the establishment of company-like organizations (Decentralized Autonomous Organizations, DAOs). A parallel, decentralized financial system with over \$60 billion in deposited assets has emerged.

The native cryptocurrency, Ether(ETH), serves as the base currency in this network. To interact with smart contracts, users spend ETH. A portion of the transaction fee is destroyed, while the rest is distributed to staking participants who have deposited their own Ether as security and validate transactions. This combination creates a digital currency that exhibits monetary properties such as limited inflation (or even deflation), as well as value based purely on its use.

Additional fundamental catalysts are approaching

Another significant milestone is on the horizon. In two weeks, the so-called Dencun Upgrade (EIP-4844) will significantly reduce the costs for scaling solutions. During times of high network activity,

interactions with the Ethereum blockchain can cost over 100 US dollars. Microtransactions, gaming apps, and active trading become unaffordable for a large portion of network participants.

To counter this drawback, various teams are developing multi-layer scaling platforms. On a second layer ("Layer-2"), hundreds of transactions are bundled together and settled on Ethereum. The cost for a transfer on the Layer-2 level is shared among all participants. Thus, transactions on the two largest scaling networks, Arbitrum and Optimism, which both have their own tokens, require only ten to fifty cents instead of over 20 dollars.

After the Dencun Upgrade, larger bundles will be settled at a lower price. The average fee is expected to drop to below two cents. Blockchain activity that migrated to alternative Layer-1 platforms over the past years could flow back into the Ethereum ecosystem. A broader array of potential users will also gain affordable access to the blockchain world.

The market wakes up

The crypto markets are considered relatively inefficient due to their youth. The pricing in of the buying pressure from spot Bitcoin ETFs only partially occurred before their approval. Since January 10th, the largest cryptocurrency by market capitalization has gained an additional +30%. Only +14% is needed to reach its all-time high - and this is before the infamous "Halving."



Figure 2: Ratio between Ether and Bitcoin (weekly) / Source: Tradingview

We're observing a similar pattern with Ethereum. The Ether to Bitcoin (ETH/BTC) ratio trades near a multi-



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year low. Traders seem to remain skeptical about the actual realization of an ETH ETF. For attentive investors with access to a broader selection of cryptocurrencies, this presents an opportunity. In past market cycles, a capital rotation from Bitcoin into other assets always began after the first impulse.



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